Embamunaigas Joint Stock Company

Financial Statements

For the year ended 31 December 2023
with Independent Auditor's Report

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Independent Auditor's Report

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Independent auditor's report

To the Shareholder, Board of Directors and management of Embamuinaigas Joint Stock Company

Opinion

We have audited the financial statements of Embamunaigas Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Board of Directors of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Rustamzhan Sattarov
Auditor / General Director
Ernst and Young LLP

Auditor Qualification Certificate
No. МФ- 0000060 dated 6 January 2012

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, № 0000003, issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

050060, Republic of Kazakhstan, Almaty
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21 February 2024

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

In thousands of tenge	Notes	2023	2022
Revenue from contracts with customers	4	**402,703,584**	394,121,621
Cost of sales	5	**(202,013,181)**	(175,250,804)
Gross profit		**200,690,403**	218,870,817
Selling expenses	6	**(121,947,398)**	(137,038,699)
General and administrative expenses	7	**(11,984,828)**	(12,831,267)
Exploration expenses		**(94,833)**	(41,472)
Gain on reversal of impairment of VAT recoverable	13	**128,508**	2,075,907
Operating profit		**66,791,852**	71,035,286
Finance income	12	**2,598,732**	2,919,492
Finance costs	8	**(5,747,262)**	(3,466,183)
Foreign exchange difference, net		**(3,428,424)**	9,563,259
Other income		**1,839,110**	1,191,949
Other expense		**(2,328,632)**	(3,968,320)
Profit before tax		**59,725,376**	77,275,483
Income tax expense	9	**(13,784,053)**	(19,649,667
Profit for the year		**45,941,323**	57,625,816
Other comprehensive income/(loss)			
The amounts of other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of taxes)			
Remeasurement gain on defined benefit plans	17	**113,940**	2,104,413
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**113,940**	2,104,413
Total comprehensive income/(loss) for the year, net of tax		**46,055,263**	59,730,229

Deputy General Director for Economics and Finance — *R.N. Tasmagambetova*

Chief Accountant — *N.Zh. Makhambetov*

The accounting policies and explanatory notes on pages 5 to 35 are an integral part of these financial statements.

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Deputy General Director for Economics and Finance

R.N. Tasmagambetova

Chief Accountant

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STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

In thousands of tenge	Notes	2023	2022
Assets			
Non-current assets			
Property, plant and equipment	10	**222,486,302**	187,576,435
Exploration and evaluation assets	11	**1,509,357**	1,280,007
Intangible assets		**699,322**	1,487,954
Other financial assets	12	**48,731,434**	49,364,343
Deferred tax assets	8	**10,496,276**	11,036,738
Advances paid for non-current assets		**3,841,367**	1,286,077
Total non-current assets		**287,764,058**	252,031,554
Current assets			
Inventories	14	**14,104,723**	11,910,989
Corporate income tax prepayment		**–**	7,523,689
Taxes prepaid and VAT recoverable	13	**11,012,752**	3,227,476
Advances paid and deferred expenses		**4,764,135**	4,140,886
Trade and other receivables	12	**50,456,951**	27,990,813
Other current financial assets	12	**527,636**	13,122,895
Cash and cash equivalents	12	**21,746,518**	60,311,570
Total current assets		**102,612,715**	128,228,318
Total assets		**390,376,773**	380,259,872
Equity			
Share capital	14	**162,399,820**	162,399,820
Retained earnings		**123,031,946**	121,993,913
Total equity		**285,431,766**	284,393,733
Liabilities			
Non-current liabilities			
Historical obligations	15	**5,788,259**	5,687,303
Provisions	16	**41,422,828**	37,221,682
Total non-current liabilities		**47,211,087**	42,908,985
Current liabilities			
Historical obligations	16	**1,901,473**	1,935,315
Provisions	17	**7,131,387**	10,462,645
Mineral extraction tax and rent tax payable	18	**19,290,001**	17,019,060
Income tax liabilities		**1,855,944**	–
Trade and other payables	19	**27,555,115**	23,540,134
Total current liabilities		**57,733,920**	52,957,154
Total liabilities		**104,945,007**	95,866,139
Total liabilities and equity		**390,376,773**	380,259,872

Deputy General Director for Economics and Finance — *R.N. Tasmagambetova*

Chief Accountant — *N.Zh. Makhambetov*

The accounting policies and explanatory notes on pages 5 to 35 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

In thousands of tenge	Notes	2023	2022
Operating activities			
Profit before tax		**59,725,376**	77,275,483
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and impairment	10, 11	**27,280,412**	26,514,677
Loss on disposal of property, plant and equipment and exploration assets	10, 11	**1,195,405**	1,707,119
Unrealised gain from foreign exchange difference, net		**(2,779,926)**	(6,186,387)
Change in provisions		**(180,168)**	1,956,195
Recovery of ECL expenses and advances impairment	12	**(491,872)**	(67,115)
Finance costs		**5,747,262**	3,466,183
Finance income		**(2,598,732)**	(2,919,492)
		87,897,757	101,746,663
Working capital adjustments			
Change in inventories		**(2,193,734)**	(1,186,662)
Change in taxes prepaid		**(7,785,276)**	3,140,155
Change in advances paid and deferred expenses		**(3,178,539)**	513,244
Change in trade and other receivables		**(7,719,744)**	2,451,429
Change in trade and other payables		**8,680,525**	1,976,491
Change in other current financial assets		**–**	(13,122,895)
Change in mineral extraction tax and rent tax payable		**2,270,941**	3,142,227
		77,971,930	98,660,652
Interest received		**1,514,843**	2,919,492
Income tax paid		**(7,825,000)**	(17,815,165)
Net cash flows from operating activities		**71,661,773**	83,764,979
Investing activities			
Purchase of property, plant and equipment		**(65,875,120)**	(35,442,524)
Purchase of intangible assets		**(85,584)**	(256,206)
Placement of long-term deposits		**(412,095)**	–
Withdrawal of long-term deposits		**39,823**	1,080,387
Net cash flows used in investing activities		**(66,332,976)**	(34,618,343)
Financing activities			
Dividends paid to Parent Company	15	**(45,017,230)**	(65,015,316)
Payments of historical liabilities	16	**(1,527,039)**	(1,440,237)
Net cash flows used in financing activities		**(46,544,269)**	(66,455,553)
Net change in cash and cash equivalents		**(41,215,472)**	(17,308,917)
Cash and cash equivalents at 1 January		**60,311,570**	74,630,524
Foreign exchange difference, net		**2,650,420**	2,989,963
Cash and cash equivalents at 31 December	12	**21,746,518**	60,311,570

Deputy General Director for Economics and Finance — *R.N. Tasmagambetova*

Chief Accountant — *N.Zh. Makhambetov*

“Ембімұнайгаз” АҚ

EMG

The accounting policies and explanatory notes on pages 5 to 35 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

In thousands of tenge	Notes	Share capital	Retained earnings	Total
At 1 January 2022		162,399,820	127,279,000	289,678,820
Profit for the year		–	57,625,816	57,625,816
Other comprehensive loss	17	–	2,104,413	2,104,413
Total comprehensive loss		–	59,730,229	59,730,229
Dividends	15	–	(65,015,316)	(65,015,316)
At 31 December 2022		**162,399,820**	**121,993,913**	**284,393,733**
Profit for the year		**–**	**45,941,323**	**45,941,323**
Other comprehensive income	17	**–**	**113,940**	**113,940**
Total comprehensive income		**–**	**46,055,263**	**46,055,263**
Dividends	15	**–**	**(45,017,230)**	**(45,017,230)**
At 31 December 2023		**162,399,820**	**123,031,946**	**285,431,766**

Deputy General Director for Economics and Finance

R.N. Tasmagambetova

Chief Accountant

N.Zh. Makhambetov

The accounting policies and explanatory notes on pages 5 to 35 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Embamunaigas Joint Stock Company (the "Company") was incorporated in the Republic of Kazakhstan on 27 February 2012 following the decision of the Board of Directors of KazMunayGas Exploration Production Joint Stock Company ("KMG EP" or the "Parent Company") dated 31 January 2012.

The Company is engaged in exploration, development, production, processing and export of hydrocarbons. Oil and gas activities of the Company are carried out on oil and gas properties located in Atyrau region of Western Kazakhstan. The Company develops oil fields under the following subsoil use contracts: contract No. 37 (Kenbai oilfield), contract No. 61 (South-East Novobogatinskoe oilfield), contract No. 211 (23 oilfields), contract No. 413 (15 oilfields), contract No. 327 (Taisoigan oilfield), contract No. 992 (West Novobogatinskoe oilfield); contract No. 406 (Liman oilfield); contract No. 3577 (Karaton-Sarkamys oilfield); contract No. 4906 (South-East Novobogat (suprasalt)). On 25 February 2015, addenda to extend contracts were signed between the Ministry of Energy and Embamunaigas JSC for the following contracts: contract No. 37 valid until 2041, contract No. 61 valid until 2048, contract No. 211 valid until 2037, contract No. 413 valid until 2043.

On 9 December 2022, an addendum was signed between Embamunaigas JSC and the Ministry of Energy on fixing the production period at the S. Nurzhanov field (contract No. 3577 Karaton-Sarkamys) for a period of 25 years.

On 6 December 2022, two contracts were signed for the exploration and production of hydrocarbons at the Taisoigan-1 and Taisoigan-2 sites (contract No. 5134-UVS Taisoigan-1, contract No. 5135-UVS Taisoigan-2) between National Company KazMunayGas JSC ("NC KMG") and the Ministry of Energy of the Republic of Kazakhstan for a period of 6 years until 6 December 2028 with the option to extend the exploration and production period. On 4 April, an Agreement on the assignment (transfer) of 100% (one hundred percent) of the subsoil use rights was signed under the Contracts for exploration and production of hydrocarbons at the Taisoigan-1 and Taisoigan-2 sites between NC KMG and the Company.

The sole shareholder of the Company is KMG EP. KMG EP's principal shareholder is National Company KazMunayGas JSC ("NC KMG"), which represents the state's interests in the Kazakhstan oil and gas industry. As at 31 December 2022, 87.42% of NC KMG's shares are owned by SWF Samruk-Kazyna JSC ("SWF Samruk-Kazyna"), 9.58% of shares belong to the Republican State Institution National Bank of the Republic of Kazakhstan and 3% of shares are free float shares traded on the AIX and KASE stock exchanges. The Government of the Republic of Kazakhstan is the sole shareholder of SWF Samruk-Kazyna.

The Company's financial statements for the year ended 31 December 2023 were authorised for issue by the Deputy General Director for Economics and Finance and the Chief Accountant on 21 February 2024.

2. BASIS OF PREPARATION

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these financial statements. These financial statements are presented in tenge, and all values are rounded to the nearest thousand unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 3*.

These financial statements of the Company have been prepared on a going concern basis.

2. BASIS OF PREPARATION (continued)

New and amended standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual reporting periods beginning on or after 1 January 2023 (unless otherwise indicated). None of the standards and amendments listed below are expected to have a material impact on the Company's financial statements:

- IFRS 17 *Insurance Contracts;*
- Amendments to IAS 8 – *Definition of Accounting Estimates*;
- Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting Policies*;
- Amendments to IAS 12 – *Deferred Taxation Related to Assets and Liabilities Arising from a Single Transaction;*
- Amendments to IFRS (IAS) 12 – *International Tax Reform – Pillar II Model Rules.*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective:

Amendments to IFRS 16 – *Lease Liability in a Sale and Leaseback*

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted, and that fact must be disclosed.

The amendments are not expected to have a material impact on the Company's financial statements.

Amendments to IAS 1 – *Classification of Liabilities as Current or Non-current*

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.
The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively.

These amendments will not have a material impact on the Company's financial statements.

Amendments to IAS 7 and IFRS 7 – *Supplier Finance Arrangements*

In May 2023, the IASB issued amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

The amendments are not expected to have a material impact on the Company's financial statements.

2. BASIS OF PREPARATION (continued)

Foreign currency translation

The financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"), which is the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are recognised in the statement of comprehensive income.

Exchange rates

The official rate of the Kazakhstan tenge to the US dollar at 31 December 2023 and 2022 was 454.56 tenge and 462.65 tenge, respectively. Any translation of tenge amounts to US dollar or any other hard currency should not be construed as a representation that such tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Operating environment

In general, the economy of the Republic of Kazakhstan continues to demonstrate some characteristic features inherent in emerging markets. It is particularly sensitive to fluctuations in the prices of oil, gas and other minerals, which make up the bulk of the country's exports. These features also include, but are not limited to, the existence of a national currency without free conversion outside the country and the low level of liquidity in the securities market. Ongoing political tensions in the region, exchange rate volatility have had and may continue to have a negative impact on the economy of the Republic of Kazakhstan, including reduced liquidity and hardships in international debt financing.

However, the above factors did not affect oil demand. The management is unable to foresee the extent or duration of changes in the Kazakh economy or to assess their possible impact on the Company's future financial position. The management believes that it takes all the required steps to support stability and growth of the Company's business under the current circumstances.

Oil and gas field exploration and development expenditures

Exploration licence costs

Exploration licence costs are capitalised within intangible assets and amortised on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned. If no future activity is planned, the remaining balance of the licence cost is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), amortisation ceases, and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licences and approvals are obtained from the appropriate regulatory bodies, then the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Exploration expenditures

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalised within the exploration and evaluation asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel and energy used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole expenditure. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, then the costs continue to be carried as an asset.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

2. BASIS OF PREPARATION (continued)

Oil and gas field exploration and development expenditures (continued)

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole expenditures in the period, is capitalised within property, plant and equipment.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

The initial cost of assets comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The acquisition or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas assets are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4 to 15 years.

Other property, plant and equipment principally comprise buildings, machinery and equipment, which are depreciated on a straight-line basis over average useful lives of 5 to 25 years.

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The current value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the current value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the current amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the current value of an asset may not be recoverable.

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for a group of assets is required, the Company makes an estimate of its recoverable amount.

The recoverable amount of a group of assets is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a group of assets exceeds its recoverable amount, such group of assets is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the current value of the asset is increased to its recoverable amount. The increased amount may not exceed the current amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in the previous periods. Such reversal is recognised in the statement of comprehensive income.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2. BASIS OF PREPARATION (continued)

Exploration and evaluation assets

Exploration and evaluation assets are recorded at historical cost less accumulated impairment losses. At the exploration and evaluation stage, the right to subsoil use includes the capitalised costs for exploration and evaluation and the costs of acquiring the exploration licences and is accounted for within intangible assets. The acquisition costs of the exploration rights are amortised on a straight-line basis over the estimated period of exploration.

The Company tests its exploration and evaluation assets for impairment when the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

Intangible assets

Intangible assets other than subsoil use rights are stated at cost, less accumulated amortisation and accumulated impairment losses. Intangible assets include mainly computer software.

Intangible assets purchased separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Computer software has an estimated useful life of 3 to 7 years and computer software costs are amortised on a straight-line basis over this period. The current value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the current amount may not be recoverable.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. Except for trade receivables that do not contain a significant financing component or for which the Company applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through profit or loss;
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

2. BASIS OF PREPARATION (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains or losses are recognised in profit or loss when an asset is derecognised, modified or impaired. At 31 December 2023 and 31 December 2022, all financial assets of the Company are classified as financial assets measured at amortised cost.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of comprehensive income when the right to receive dividends has been established, except when the Company benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case such gains are recorded in OCI. Equity instruments designated at fair value through OCI by the Company are not subject to impairment assessment.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from the statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

2. BASIS OF PREPARATION (continued)

Financial assets (continued)

Impairment of financial assets

The Company recognises a provision for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. The financial asset is written off if there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

Subsequent measurement

For the purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss;
- Financial liabilities at amortised cost (loans, borrowings and payables).

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchase in the near future. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Selected embedded derivatives are also classified as held for trading unless they are classified as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

2. BASIS OF PREPARATION (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at amortised cost (loans, borrowings and payables)

This is the category most relevant to the Company. After initial recognition, trade and other payables are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

This category generally applies to trade and other payables.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Inventory

Inventories are recorded at the lower of cost on a first-in/first-out basis separately for each warehouse and net realisable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortisation ("DD&A") and overheads based on normal capacity.

Net realisable value of crude oil is based on the proposed selling price less any costs expected to be incurred to complete the sale. Materials and supplies are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

Value added tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. Value added tax recoverable represents VAT on purchases on domestic market net of VAT on sales on domestic market. Export sales are zero rated for VAT purposes. However, VAT offset is allowed only based on the results of a tax audit carried out by the tax authorities to confirm VAT recoverable.

If the effect of the time value of money is material, long-term VAT recoverable is discounted using a risk-free rate that reflects, where appropriate, the risks specific to the asset.

The carrying amount of VAT recoverable is reduced to the recoverable amount using the allowance account for the impairment of VAT recoverable. The amount of impairment losses is recognised in general and administrative expenses in the statement of comprehensive income.

If the amount of VAT recoverable is subsequently reimbursed from the budget, then the previously recognised impairment loss should be recovered using the allowance account for the impairment of VAT recoverable.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with maturities of three months or less that are held for the purpose of meeting short-term cash commitments and are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

2. BASIS OF PREPARATION (continued)

Cash and cash equivalents (continued)

Equity

Ordinary shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared on or before the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements were authorised for issue.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Defined benefit obligation

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. In 2023, the pension deductions are limited to a maximum of 425,000 tenge per month (2022: 300,000 tenge per month). In, Kazakhstan, under the current legislation, employees are responsible for their retirement benefits. Since 1 January 2014, the Company is also required to transfer mandatory professional pension contributions in the amount of 5% of the income of the majority of its employees to their pension funds.

Long-term employee defined benefit liabilities

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Company and its employees and other documents. In particular, the Collective Agreement and other documents stipulate payment of one-time retirement benefits, early retirement, rendering of material aid to the employees in case of disability, jubilee and death. Eligibility for benefits usually depends on the employee's length of service in the industry prior to retirement.

Accrual of expected expenses on one-time retirement benefits and early retirement benefits is carried out during employee labour activity, in accordance with the technique that is used in the calculation of defined benefit plans. Actuarial gains and losses arising in the year, including the effect of changes in actuarial assumptions and the effect of previous experience due to the differences between the actuarial assumptions and the actual data, are taken to other comprehensive income.

Other changes are recognised in the current period, including the cost of current services, past services and the effect of staff reduction or calculations made, are recognised in the profit or loss of the current period. The cost of services of the current period represents an increase in the present value of the employee benefit obligation as a result of the Company's provision of services in the current period. The cost of past services represents the change in the present value of the defined benefit plan liability as a result of changes or reductions in the program. The most significant assumptions used in the accounting for pension liabilities are the discount rate and the expected changes in the mortality rate. The discount rate is used to determine the net present value of future liabilities and each year unwinding of the discount on such liabilities is recorded in the statement of comprehensive income as finance costs. Mortality assumption is used to forecast future interest payment flow, which is later discounted to get the net present value of liabilities.

Employee benefits apart from lump-sum retirement benefits are considered as other employee benefits. The expected expenses on these long-term benefits are accrued during the employee labour activity according to the method that is used in the calculation of defined benefit plans.

These obligations are valued by independent qualified actuaries on an annual basis.

2. BASIS OF PREPARATION (continued)

Revenue recognition

The Company sells crude oil under short-term contracts priced as the average of 5 average (high/low) Brent quotes published by Platt's, adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognised when crude oil is physically placed onboard a vessel or offloaded from the vessel, transferred into the pipeline or another delivery mechanism depending on the contractually agreed terms.

The Company's crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the statement of financial position.

Taxation

Current income tax expense comprises current corporate income tax, excess profit tax and deferred tax.

Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Excess profit tax

Excess profit tax ("EPT") is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of 1 January 2009, the Company accrues and pays EPT in respect of each subsoil use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsoil use contract. The ratio of total annual income to deductions in each fiscal year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsoil use contract in excess of 25% of the deductions attributable to each contract.

Deferred income tax

Deferred tax assets and liabilities are calculated for all temporary differences using the liability method for all temporary differences between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. BASIS OF PREPARATION (continued)

Taxation (continued)

Deferred income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries and, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

In assessing the recoverability of deferred tax assets, the Company relies on the same assumptions that are used elsewhere in the financial statements and other management reports.

These assumptions reflect, among other things, the potential impact of climate-related development on the business, such as increased cost of production as a result of measures to reduce carbon emission.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Company's accounting policies, the management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Company has determined that all revenue from contracts with customers is received at a point in time, and the recognition of revenue requires the Company's management to make judgements that affect the reported amounts of revenue. Contractual relations for the sale of oil with other terms may result in recognition of revenue over time.

Judgement is used in assessing whether the Company is a principal or an agent in revenue transactions. In determining that the Company acts as a principal, the terms of the agreement were carefully considered, and it was concluded that the Company controls the product before it is transferred to the buyer. In alternative agreements, the Company can be defined as an agent.

In accordance with the terms of the existing contracts, the Company has determined that shipping or transportation services are not provided to the buyer, and that the only performance obligations relate to the sale of crude oil and petroleum products. Judgement is required in determining whether shipment is provided as a service, and this affects the identification of the performance obligation, recognition of all performance obligations at a point in time or over time, and the overall timing of revenue recognition. The Company's management does not consider the shipping costs to be a separate performance obligation, as the risks and associated rewards pass to the buyer at the time of shipment at the port.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Deferred tax assets

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax ("EPT"). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates. Deferred CIT and EPT bases disclosed in *Note 9* are calculated under the terms of the tax legislation.

Deferred tax assets require the management to assess the probability that the Company will generate sufficient taxable profit in future periods to use the recognised deferred tax assets. Assumptions about future taxable profit depend on the management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws. If future cash flows and taxable profit differ materially from estimates, this may affect the Company's ability to realise the net deferred tax assets recognised at the reporting date. Additionally, future changes in tax laws in the jurisdictions, in which the Company operates, could limit the ability of the Company to obtain tax deductions in future periods. The Company's management estimates that it is highly probable that sufficient taxable profit will be available in future periods to use the recognised deferred tax assets.

Estimation uncertainty

Evaluation of oil and gas reserves

Oil and gas reserves are estimates of the amount of hydrocarbons that can be economically and legally produced in the Company's oil and gas fields. The Company estimates its commercial reserves and resources based on the information gathered by qualified specialists regarding geological and technical data on the size, depth, shape and content of the hydrocarbon body, as well as suitable production methods and recovery rates. Commercial reserves are determined using estimates of oil and gas reserves, recovery factors, and future commodity prices, the latter affecting the total amount of recoverable reserves and the share of gross reserves. Future capital expenditures are estimated using the assumptions about the number of wells needed to extract the commercial reserves, cost of such wells and associated production capacity, and other capital expenditures.

The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers ("SPE"). In estimating its reserves, the Company uses long-term planning prices. Using the planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. The current long-term Brent crude oil price assumption used in estimating commercial reserves is USD 80 per barrel (2022: USD 90 per barrel). The carrying amount of oil and gas assets as at 31 December 2023 is disclosed in *Note 10*.

Since the economic assumptions may change, as additional geological information is obtained during the operation of the field, the estimates of recoverable reserves may change. The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in the development strategy. Such changes may impact the Company's reported financial position and results, which include:

- The carrying amount of oil and gas and other assets (*Note 10*);
- Depreciation, depletion and amortisation in the statement of comprehensive income (*Note 10*);
- Asset retirement obligations – if changes in inventory estimates affect expectations about when such actions will occur and the associated costs of such actions (*Notes 10 and 17*);
- The carrying amount of deferred tax assets – may change due to changes in the assessment of the probability of recovery of such assets (*Note 9*).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Depreciation of oil and gas assets

Depreciation of oil and gas assets is calculated using the production method in relation to the amount of proven developed reserves. This results in a depreciation charge proportional to the depletion of the expected remaining production in the field.

When determining the service life of each object, the limitation of the physical service life is taken into account, as well as current estimates of the economically recoverable reserves of the field. These calculations require the use of estimates and assumptions, including the amount of inventory and future capital expenditures. Changes in proven developed reserves may result from the changes in the factors or the assumptions used in estimating the reserves, including:

- The difference between actual and projected crude oil prices;
- Unforeseen operating issues that may affect future capital expenditures.
- More detailed information about existing reserves that becomes available (for example, detailed engineering and geophysical studies or drilling of additional wells).

Impairment of oil and gas assets

The Company assesses an asset of a group of assets or cash-generating units (CGU) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as discount rates, future capital requirements, operating performance that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount.

In assessing the recoverable amount, the estimated future cash flows are adjusted for the risks specific to the asset group / generating unit and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the Company and not applicable to the Company in general.

As a result of the assessment conducted by the Company's management, no indications of possible asset impairment have been identified as at 31 December 2023.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations, the Company has legal obligations to dismantle and abandon tangible assets and restore the sites at each field. In particular, the Company's obligations include the step-by-step closure of all unproductive wells and actions for the final discontinuance of activities, such as the liquidation of wells, dismantling of pipelines, dismantling of land and underground facilities, communication and other facilities, reclamation of the contract area and the preliminary environmental impact assessment. Since the licence terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each licence period.

If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and the extent of final closure costs depend on the terms of the respective contracts and current legislation.

Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the licence term, no liability has been recognised. There is some uncertainty and material judgement involved in making such a determination.

The management's assessment of the presence or absence of such obligations could change with the shifts in the Government's policies and practices or in the local industry practice. The Company calculates asset retirement obligations separately for each contract.

These obligations are valued by independent competent consultants on an annual basis.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Asset retirement obligations (continued)

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company revises the obligation to restore the contract territory at each reporting date and adjusts it to reflect the best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Estimating the future closure costs involves material estimates and judgements made by the management. Most of these obligations are related to the distant future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by the changes in asset removal technologies, costs and industry practice. As at 31 December 2023 and 2022, approximately 27% and 24% of the provision, respectively, relate to the final closure costs. The Company estimates future well abandonment cost using the current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the carrying amount of the liability at 31 December 2023 and 2022 are presented below:

As a percentage	**2023**	2022
Discount rate on the field abandonment provision	**8.63%**	8.59%
Inflation rate	**4.13%**	4.13%

Movements in the provision for asset retirement obligations are disclosed in *Note 16*.

Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For example, if forecast economic conditions (such as GDP) are expected to deteriorate over the next year, which may result in an increase in defaults in the production sector, the historical default rate is adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. Information on ECLs on the Company's trade receivables is disclosed in *Note 12*.

Sales at preliminary prices

Contracts for the sale of crude oil for export include conditions that allow prices to be adjusted based on the market price at the end of the relevant quotation period (QP) specified in the contract. The selling price adjustments are based on the changes in quoted market prices before the end of the QP. Under these contracts, the revenue from sales in such cases is initially recognised when control is transferred to the buyer and will be measured at the expected amount, based on the forward price.

The final selling price is based on the average market price quotes within 5 days of the bill of lading. The price risks in the quoted period correspond to the definition of an embedded derivative in accordance with IFRS 9. The Company applies judgement to determine the fair value of the receivables. The Company presents the changes in the fair value of receivables from the date of sale for 2023 as part of revenue (*Note 4*). As at 31 December 2023, the adjustment of receivables under such contracts between the preliminary and final price for 2023 is insignificant.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimation uncertainty (continued)

Defined benefit obligation

The cost of long-term employee benefits before and after retirement and the present value of obligations is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from the actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future benefits increases. Due to the difficulty of assessing the basic assumptions and long-term obligations under the post-employment benefit plans, such obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The mortality rate is based on publicly available mortality tables. Future increase in salary is based on expected future inflation rates. Main actuarial assumptions used for evaluation of liabilities on employee benefits as at 31 December 2023 and 2022 are as follows:

As a percentage	**2023**	2022
Discount rate	**11.02%**	10.36%
Future increase of non-current annual payments (MCI)	**7.15%**	7.50%
Future salary increase (2023)	**9.50%**	9.50%
Future salary increase (2024)	**8.00%**	9.50%
Future salary increase (2025)	**6.00%**	5.00%
Future salary increase (from 2026)	**4.00%**	4.00%
Male early retirement probability	**14.56%**	15.47%
Female early retirement probability	**4.24%**	3.79%

The average duration of the employee benefit obligation at the end of employment as at 31 December 2023 and 2022 was 7.42 years and 9.41 years, respectively.

The sensitivity analysis of employee benefit liabilities to changes in material assumptions as at 31 December 2023 is as follows:

In thousands of tenge	**Decrease**	**Increase**
Discount rate	**(0.5%)**	**+0.5%**
	791,387	**(739,304)**
Salary growth	**(1.0%)**	**+1.0%**
	(266,796)	**296,103**

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

In thousands of tenge	**Recognition of revenue from obligation performance**	**2023**	2022
Export			
Crude oil	At a point in time	**260,907,290**	269,064,950
Quality Bank *(Note 20)*	At a point in time	**1,447,450**	(144,923)
Domestic market			
Crude oil	At a point in time	**139,703,143**	124,585,448
Gas products	At a point in time	**253,472**	246,910
Other sales and services	Over time	**392,229**	369,236
		402,703,584	394,121,621

4. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

In thousands of tenge	2023	2022
Geographical market		
Switzerland	**260,907,290**	269,064,950
Kazakhstan	**141,796,294**	125,056,671
	402,703,584	394,121,621

In 2023, the preliminary price adjustment reduces revenue from contracts with customers by 101,287 thousand tenge (2022: 303,002 thousand tenge).

The Oil Quality Bank is a mechanism of penalty and compensatory payments by/to the Company depending on the quality of the crude they deliver into the Caspian Pipeline Consortium system. The commission for the Quality Bank services is compensated to NC KMG.

5. COST OF SALES

In thousands of tenge	2023	2022
Employee benefits	**77,246,129**	69,738,515
Repair and well maintenance	**33,961,251**	21,924,176
Mineral extraction tax, net *(Note 18)*	**33,081,256**	33,275,383
Depreciation, depletion and amortisation	**26,638,543**	25,763,054
Transportation expenses	**7,675,631**	6,231,419
Materials and supplies	**7,594,305**	4,772,509
Electric energy	**5,871,403**	5,220,686
Taxes other than income tax	**2,747,166**	2,697,576
Other	**8,934,943**	6,853,102
	203,750,627	176,476,420
Change in crude oil balance	**(1,737,446)**	(1,225,616)
	202,013,181	175,250,804

For 2023, production costs for processing of associated gas are 8,757,854 thousand tenge (2022: 7,225,576 thousand tenge).

6. SELLING EXPENSES

In thousands of tenge	2023	2022
Rent tax *(Note 18)*	**48,189,372**	65,683,907
Transportation expenses	**37,355,043**	34,852,537
Export customs duty	**36,307,342**	36,415,063
Sales agent's fee	**95,641**	87,192
	121,947,398	137,038,699

7. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	2023	2022
Employee benefits	**7,316,816**	6,341,773
Repair and maintenance	**1,760,374**	1,210,428
Depreciation, depletion and amortisation	**641,869**	751,623
Taxes other than income tax	**416,920**	292,713
Transportation expenses	**395,215**	374,141
Entertainment services	**287,081**	1,228,618
Provisions for penalty and fines	**234,792**	152,414
Advisory and audit services	**152,906**	266,143
Sponsorship	**50,329**	1,640,086
Recovery of ECL allowance (*Note 12*)	**(501,064)**	(78,260)
Other	**1,229,590**	651,588
	11,984,828	12,831,267

7. GENERAL AND ADMINISTRATIVE EXPENSES (continued)

As part of the celebration of the 100th anniversary of Embamunaigas JSC, the Company has sponsored the construction of socially significant facilities in Atyrau region for a total amount of 1,262,882 thousand tenge in 2022.

Also, as part of the celebration of the 100th anniversary of Embamunaigas JSC, the Company incurred expenses for the organisation and holding of cultural and sports events for the total of 1,228,618 thousand tenge in 2022.

8. FINANCE COSTS

In thousands of tenge	2023	2022
Unwinding of discount on asset retirement obligations *(Note 17)*	**2,092,293**	1,661,024
Unwinding of discount on historical obligations *(Note 16)*	**1,723,659**	717,292
Unwinding of discount on defined benefit obligations *(Note 17)*	**1,501,503**	921,987
Other	**429,807**	165,880
	5,747,262	3,466,183

9. INCOME TAX

Income tax expense for the period comprised the following:

In thousands of tenge	2023	2022
Current corporate income tax	**17,791,798**	17,845,520
Adjustment of corporate income tax for the prior period	**(110,114)**	84,479
Current excess profit tax	**-**	167,151
Adjustment of excess profit tax for the prior period	**(118,883)**	253,643
Adjustment of corporate income tax provision	**(608,604)**	1,567,305
Current income tax expense	**13,243,591**	19,918,098
Deferred tax expense/benefit	**540,462**	(268,431)
Deferred tax expense/benefit	**540,462**	(268,431)
Income tax expense	**13,784,053**	19,649,667

The following table provides a reconciliation of the Kazakhstan income tax rate to the Company's effective tax rate paid on profit before tax.

In thousands of tenge	2023	2022
Profit before tax	**59,725,376**	77,275,483
Income tax expense	**13,784,053**	19,649,667
Effective tax rate	**23%**	25%
Income tax expense at statutory rate	**11,945,075**	15,455,097
Adjustment of excess profit tax for the prior period	**(118,883)**	253,643
Adjustment of corporate income tax for the prior period	**(110,114)**	84,479
Defined benefit expenses	**503,939**	671,941
Withholding tax	**358,169**	388,990
Non-deductible expenses	**1,289,633**	645,760
Expenses for the reclamation of land outside the mining allotment	**524,838**	-
Current excess profit tax	**-**	167,151
Non-deductible expenses from sale below cost	**-**	415,301
Adjustment of corporate income tax provision	**(608,604)**	1,567,305
Income tax expense	**13,784,053**	19,649,667

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. INCOME TAX (continued)

The adjustment of the corporate income tax provision for the prior period mainly represents the recalculation of the provision for possible risks of CIT assessment with respect to the risk of reimbursement of expenses related to the oil transportation after loading on a tanker.

The movements in the deferred tax assets relating to CIT and EPT were as follows:

In thousands of tenge	**Property, plant and equipment and intangible assets**	**Provisions and historical obligations**	**Taxes**	**Other**	**Total**
At 1 January 2022	285,835	6,921,281	2,511,442	1,048,336	10,766,894
Recognised in profit and loss	(343,651)	(607,323)	1,037,277	183,541	269,844
At 31 December 2022	(57,816)	6,313,958	3,548,719	1,231,877	11,036,738
Recognised in profit and loss	**(2,845,199)**	**964,922**	**861,401**	**478,414**	**(540,462)**
At 31 December 2023	**(2,903,015)**	**7,278,880**	**4,410,120**	**1,710,291**	**10,496,276**

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. PROPERTY, PLANT AND EQUIPMENT

In thousands of tenge	Oil and gas assets	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other assets	Capital construction -in-progress	Total
Net book value at 1 January 2022	145,849,255	304,302	8,662,473	2,854,058	4,182,349	4,220,364	9,483,940	175,556,741
Additions	95,375	–	525	355	–	16,911	37,537,407	37,650,573
Changes in ARO estimate *(Note 17)*	(1,098,435)	–	–	–	–	–	–	(1,098,435)
Disposals	(2,644,466)	(61,670)	(15,088)	(66,308)	(830,837)	(228,077)	(26,301)	(3,872,747)
Transfers from capital work-in-progress	26,697,449	–	174,755	200,282	249,674	848,308	(28,170,468)	–
Transfers from exploration and evaluation assets *(Note 11)*	3,299,172	–	–	–	–	–	–	3,299,172
Transfers and reclassifications	(28,722)	–	86,323	(110,831)	1,822	36,604	14,804	–
Accumulated depreciation on disposals	2,361,085	12,192	6,412	58,302	792,001	139,078	24,444	3,393,514
Write-off	–	–	–	–	–	–	(1,300,184)	(1,300,184)
Depreciation expenses	(23,670,869)	–	(351,815)	(368,565)	(829,938)	(831,012)	–	(26,052,199)
Net book value at 31 December 2022	150,859,844	254,824	8,563,585	2,567,293	3,565,071	4,202,176	17,563,642	187,576,435
Additions	**299,446**	**–**	**30**	**11,576**	**–**	**970**	**60,497,198**	**60,809,220**
Changes in ARO estimate *(Note 17)*	**2,159,679**	**–**	**–**	**–**	**–**	**–**	**–**	**2,159,679**
Disposals	**(3,300,475)**	**(18,882)**	**(42,428)**	**(68,985)**	**–**	**(174,378)**	**(1,439,810)**	**(5,044,958)**
Transfers from capital work-in-progress	**52,794,285**	**–**	**1,201,292**	**422,195**	**2,201,135**	**1,524,147**	**(58,143,054)**	**–**
Transfers from exploration and evaluation assets *(Note 11)*	**4,972**	**–**	**–**	**–**	**–**	**–**	**–**	**4,972**
Transfers and reclassifications	**(105,958)**	**–**	**1,853**	**(15,900)**	**–**	**150,019**	**(30,014)**	**–**
Accumulated depreciation on disposals	**2,857,392**	**3,935**	**(909,238)**	**55,638**	**–**	**130,660**	**1,713,534**	**3,851,921**
Write-off	**–**	**–**	**–**	**–**	**–**	**–**	**(33,777)**	**(33,777)**
Depreciation expenses	**(24,769,980)**	**–**	**(334,253)**	**(319,397)**	**(719,442)**	**(694,118)**	**–**	**(26,837,190)**
Net book value at 31 December 2023	**180,799,205**	**239,877**	**8,480,841**	**2,652,420**	**5,046,764**	**5,139,476**	**20,127,719**	**222,486,302**

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of tenge	Oil and gas assets	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other assets	Capital construction -in-progress	Total
At 31 December 2022								
Cost	394,263,742	274,181	12,732,905	4,997,772	11,072,211	8,595,596	19,412,177	451,348,584
Accumulated depreciation	(199,100,985)	–	(2,776,032)	(2,021,767)	(6,392,627)	(4,037,026)	–	(214,328,437)
Accumulated impairment	(44,302,913)	(19,357)	(1,393,288)	(408,712)	(1,114,513)	(356,394)	(1,848,535)	(49,443,712)
Net book value at 31 December 2022	150,859,844	254,824	8,563,585	2,567,293	3,565,071	4,202,176	17,563,642	187,576,435
At 31 December 2023								
Cost	**446,129,951**	**255,299**	**13,893,652**	**5,346,658**	**13,273,346**	**10,096,354**	**20,296,497**	**509,291,757**
Accumulated depreciation	**(221,186,184)**	**–**	**(3,104,887)**	**(2,285,526)**	**(7,112,069)**	**(4,587,799)**	**–**	**(238,276,465)**
Accumulated impairment	**(44,144,562)**	**(15,422)**	**(2,307,924)**	**(408,712)**	**(1,114,513)**	**(369,079)**	**(168,778)**	**(48,528,990)**
Net book value at 31 December 2023	**180,799,205**	**239,877**	**8,480,841**	**2,652,420**	**5,046,764**	**5,139,476**	**20,127,719**	**222,486,302**

As at 31 December 2023, the cost and corresponding accumulated depreciation of fully amortised property, plant and equipment that are still in use was KZT 17,173,884 thousand (2022: KZT 17,960,952 thousand), where buildings and constructions were KZT 677,530 thousand (2022: KZT 677,530 thousand), oil and gas assets were KZT 15,515,095 thousand (2022: KZT 15,419,896 thousand), and vehicles and other property, plant and equipment were KZT 981,259 thousand (2022: KZT 1,863,526 thousand).

In 2022, by the Decision of the Ministry of Energy of the Republic of Kazakhstan, permits were issued to assign hydrocarbon production sites for the S. Nurzhanov fields (contract No. 3577 Karaton-Sarkamys) and Uaz Severny (contract No. 327 Taisoigan). Commercial discovery gives the contractor the exclusive right to proceed to the production stage. Thus, assets for the S. Nurzhanov and Uaz Severny fields were transferred from exploration and evaluation assets to oil and gas production assets at the carrying amount of KZT 3,252,867 thousand as at 30 September 2022.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. EXPLORATION AND EVALUATION ASSETS

In thousands of tenge	Tangible	Intangible	Total
Net book value at 1 January 2022	3,595,324	–	3,595,324
Additions	983,855	–	983,855
Transfers from exploration and evaluation assets to property, plant and equipment (with accumulated impaiment taken into account) *(Note 10)*	(3,299,172)	–	(3,299,172)
Net book value at 31 December 2022	1,280,007	–	1,280,007
Additions	**79,705**	**175,000**	**254,705**
Depreciation	**–**	**(18,015)**	**18,015**
Disposals	**(2,368)**	**–**	**(2,368)**
Transfers from exploration and evaluation assets to property, plant and equipment (with accumulated impaiment taken into account) *(Note 10)*	**(4,972)**	**–**	**(4,972)**
Net book value at 31 December 2023	**1,352,372**	**156,985**	**1,509,357**
At 31 December 2022			
Cost	7,258,374	18,315,049	25,573,423
Accumulated depreciation	(2,352)	(14,722,365)	(14,724,717)
Accumulated impairment	(5,976,015)	(3,592,684)	(9,568,699)
Net book value at 31 December 2022	1,280,007	–	1,280,007
At 31 December 2023			
Cost	**4,422,532**	**18,490,049**	**22,912,581**
Accumulated depreciation	**–**	**(14,740,380)**	**(14,740,380)**
Accumulated impairment	**(3,070,160)**	**(3,592,684)**	**(6,662,844)**
Net book value at 31 December 2023	**1,352,372**	**156,985**	**1,509,357**

On 6 December 2022, two contracts were signed for the exploration and production of hydrocarbons at the Taisoigan-1 and Taisoigan-2 sites (contract No. 5134-UVS Taisoigan-1, contract No. 5135-UVS Taisoigan-2) between National Company KazMunayGas JSC ("NC KMG") and the Ministry of Energy of the Republic of Kazakhstan for a period of 6 years until 6 December 2028 with the option to extend the exploration and production period. On 4 April, NC KMG and the Company signed the Agreement on the assignment (transfer) of 100% (one hundred percent) of the subsoil use rights under Contracts for exploration and production of hydrocarbons at the Taisoigan-1 and Taisoigan-2 sites.

The additions of intangible assets for exploration and production represent the amount of a subscription bonus for the right of subsoil use in the Taisoigan-1 and Taisoigan-2 subsoil areas.

12. FINANCIAL ASSETS

Trade and other receivables

In thousands of tenge	2023	2022
Trade receivables	**50,435,797**	27,980,705
Other	**137,684**	90,874
	50,573,481	28,071,579
Less: ECL allowance	**(116,530)**	(80,766)
	50,456,951	27,990,813

As at 31 December 2023, the Company's trade receivables include receivables of KZT 31,440,262 thousand (2022: KZT 12,783,977 thousand) from the sale of crude oil for export to KazMunayGas Trading AG and NC KMG's receivables of KZT 18,910,184 thousand (2022: KZT 15,079,967 thousand) from the sale of crude oil to domestic market.

As at 31 December 2023, 62% of the Company's trade receivables are denominated in US dollars (2022: 46%).

12. FINANCIAL ASSETS (continued)

Trade and other receivables (continued)

Changes in the allowance for expected credit losses on receivables and assets under the contract are as follows:

In thousands of tenge	2023	2022
At 1 January	**80,766**	159,026
Accrual	**55,352**	214,369
Recovery	**(19,588)**	(292,629)
At 31 December	**116,530**	80,766

As at 31 December 2023, the information about the credit risk exposure of the Company's trade receivables and assets under the contract is presented using a provision matrix as follows:

	Trade receivables					
		Past due				
In thousands of tenge	Current	Up to 30 days	30 to 60 days	61 to 90 days	More than 91 days	Total
Percentage of expected credit losses	**0.15%**	**0.97%**	**2.19%**	**2.67%**	**47.36%**	
Estimated total gross carrying amount	**50,361,820**	**56,049**	**66,664**	**8,141**	**80,807**	**50,573,481**
ECL	**76,033**	**546**	**1,463**	**217**	**38,271**	**116,530**

As at 31 December 2022, the information about the credit risk exposure of the Company's trade receivables and assets under the contract is presented using a provision matrix as follows:

	Trade receivables					
		Past due				
In thousands of tenge	Current	Up to 30 days	30 to 60 days	61 to 90 days	More than 91 days	Total
Percentage of expected credit losses	0.07%	–	–	0.98%	87.55%	
Estimated total gross carrying amount	27,973,021	–	–	63,378	35,180	28,071,579
ECL	49,346	–	–	621	30,799	80,766

Cash and cash equivalents

In thousands of tenge	2023	2022
Time deposits with banks in US dollars	**15,233,342**	59,403,771
Time deposits with banks in tenge	**6,510,759**	890,235
Cash on accounts with banks in tenge	**2,417**	3,246
Cash on accounts with banks in US dollars	**–**	14,318
	21,746,518	60,311,570

Cash with banks earns interest at rates based on daily bank deposit rates. Deposits with banks are made for varying periods between one day and three months, depending on the Company's immediate cash requirements.

As at 31 December 2023, the weighted average interest rate on tenge denominated time deposits was 15.52% (2022: (14.75%), and the weighted average interest rate on time deposits in US dollars was 3.25% (2022: 0.25%).

12. FINANCIAL ASSETS (continued)

Other current financial assets

As at 31 December 2023, other current financial assets comprise the payment due in the amount of 527,636 thousand tenge from Kazakhmys Corporation LLP, as part of the court decision to recover the amount of the guarantee of the obligation to repurchase CDOs from Kazakhmys Corporation LLP. Since the trigger event occurred and Kazakhmys Corporation LLP did not pay the amount of maximum liability under the guarantee when due voluntarily, on 23 October 2023 the court sustained the claim of Embamunaigas JSC to recover the amount of 527,636 thousand tenge. As part of the court decision, the Company reversed the previously accrued impairment loss of 527,636 thousand tenge. The payment was made on 3 January 2024.

As at 31 December 2022, other current financial assets represent a payment in the amount of 13,122,895 thousand tenge made by a related party, KMG AG Trading, under a crude oil export purchase and sale agreement. The payment was made by the related party on 27 December 2022. The funds were transferred to the Company's bank account in 2023.

Other financial assets

Non-current financial assets comprise of liquidation fund deposits opened in accordance with the subsoil use contract for each contract separately until the end of the term of such contract. As at 31 December 2023, the weighted average interest rate on these deposits was 3% (2022: 1.02%). In 2023, interest accrued on deposits was 2,598,732 thousand tenge (2022: 2,919,492 thousand tenge).

In thousands of tenge	**2023**	2022
Financial assets held-to-maturity, US dollar	**48,593,872**	48,791,515
Financial assets held-to-maturity, tenge	**812,908**	697,411
ECL allowance	**(147,710)**	(124,583)
Total non-current financial assets	**48,731,434**	49,364,343

13. TAXES PREPAID AND VAT RECOVERABLE

In thousands of tenge	**2023**	2022
VAT recoverable	**3,354,490**	3,207,236
Export customs duty	**8,321,442**	820,332
Other	**171,364**	162,960
	11,847,296	4,190,528
Less: provision for impairment of VAT recoverable	**(834,544)**	(963,052)
Total prepaid taxes and VAT recoverable	**11,012,752**	3,227,476

Changes in provision for VAT recoverable are set out below:

In thousands of tenge	**2023**	2022
At 1 January	**963,052**	3,211,055
Reversal of provision	**(128,508)**	(2,075,907)
Written off against provision	**-**	(172,096)
At 31 December	**834,544**	963,052

14. INVENTORY

In thousands of tenge	**2023**	2022
Crude oil (at the lower of cost and net realisable value)	**10,071,177**	8,333,731
Materials at cost	**4,033,546**	3,577,258
Total inventories at the lower of cost and net realisable value	**14,104,723**	11,910,989

As at 31 December 2023, the Company had 109,382 tons of crude oil in storage and transit (2022: 104,798 tons).

15. EQUITY

Authorised shares

As at 31 December 2023 and 31 December 2022, the total number of authorised shares is 32,479,964 with par value of 5,000 tenge each, all of which are owned by the Parent Company.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity or if the payment of dividends would result in negative equity. In 2023, the Company declared and paid dividends to the Parent Company in the amount of 45,017,230 thousand tenge, or 1,386 tenge per share (2022: 65,015,316 thousand tenge, or 2,002 tenge per share).

16. HISTORICAL OBLIGATIONS

Historical obligations are denominated in US dollars and represent obligations to reimburse historical costs incurred by the Government of the Republic of Kazakhstan prior to the acquisition of certain licences by the Company: contract No. 406 – Liman field, contract No. 3577 – Karaton-Sarkamys field, contract No. 992 – West Novobogatinskoe field.

In 2021, the Company paid its obligations under Contract No. 327 – a field under the Taisogan block. Payment for reimbursement of historical costs is made by the subsoil user from the beginning of production on the contract territory and the onset of the earliest of the following dates: (1) announcement of commercial discovery; (2) transition to the production period in accordance with the legislation of the Republic of Kazakhstan on subsoil and subsoil use; (3) issuance of a production licence; (4) conclusion of a production contract. In October 2021, the Company received the minutes of the meeting of the State Commission on Mineral Reserves on proving oil and gas reserves of the S. Nurzhanov field in the Karaton-Sarkamys block.

In 2022, the Company made the first payment under the Karaton-Sarkamys contract for the fourth quarter of 2021. The payments on historical liabilities will be made until 2031, and the fair value of the liabilities at the date of initial recognition was calculated based of expected cash flows using the discount rate of 9% per annum.

Movements in historical obligations are presented as follows:

In thousands of tenge	**2023**	2022
Balance at 1 January	**7,622,618**	7,886,886
Unwinding of discount	**1,723,659**	717,292
Payments	**(1,527,039)**	(1,440,237)
Effect of foreign exchange difference	**(129,506)**	458,677
Balance at 31 December	**7,689,732**	7,622,618
Current portion	**1,901,473**	1,935,315
Non-current portion	**5,788,259**	5,687,303
Balance at 31 December	**7,689,732**	7,622,618

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. PROVISIONS

In thousands of tenge	Environ-mental liability	Environ-mental emissions provision	Provisions for taxes	Asset retirement obligation	Defined benefit obligation	Total
At 1 January 2022	1,195,993	71,570	6,462,511	23,752,295	14,305,934	45,788,303
Additional provisions	–	–	1,567,305	129,497	3,090,749	4,787,551
Unused amounts reversed	–	–	–	–	643,615	643,615
Unwinding of discount	–	–	–	1,661,024	921,987	2,583,011
Changes in estimates	–	–	–	(1,098,435)	(2,094,186)	(3,192,621)
Used during the year	(1,195,993)	(71,570)	–	(87,038)	(1,570,931)	(2,925,532)
At 31 December 2022	–	–	8,029,816	24,357,343	15,297,168	47,684,327
Current portion	–	–	8,029,816	944,421	1,488,408	10,462,645
Non-current portion	–	–	–	23,412,922	13,808,760	37,221,682
At 31 December 2022	–	–	8,029,816	24,357,343	15,297,168	47,684,327
Additional provisions	**–**	**–**	**–**	**207,238**	**1,530,427**	**1,737,665**
Reversal of unused amounts	**–**	**–**	**(4,319,210)**	**–**	**–**	**(4,319,210)**
Unwinding of discount	**–**	**–**	**–**	**2,092,293**	**1,501,503**	**3,593,796**
Changes in estimates	**–**	**–**	**–**	**2,159,679**	**(20,376)**	**2,139,303**
Used during the year	**–**	**–**	**–**	**(628,437)**	**(1,653,229)**	**(2,281,666)**
At 31 December 2023	**–**	**–**	**3,710,606**	**28,188,116**	**16,655,493**	**48,554,215**
Current portion	**–**	**–**	**3,710,606**	**1,956,362**	**1,464,419**	**7,131,387**
Non-current portion	**–**	**–**	**–**	**26,231,754**	**15,191,074**	**41,422,828**
At 31 December 2023	**–**	**–**	**3,710,606**	**28,188,116**	**16,655,493**	**48,554,215**

The amounts of defined benefit obligations recognised in the statement of financial position and the statement of comprehensive income are presented as follows:

In thousands of tenge	2023	2022
Present value of defined benefit obligations at the end of the year	**16,655,493**	15,297,168
Net liabilities	**16,655,493**	15,297,168
Current service costs	**336,593**	262,110
Interest expense	**1,501,503**	921,987
Actuarial losses – charged to profit and loss	**93,565**	10,227
Actuarial (gains)/losses - charged to other comprehensive loss	**(113,940)**	(2,104,413)
Past service cost	**1,148,396**	2,828,639
Costs recognised during the year	**3,018,451**	1,918,550
Payments made during the year	**(1,607,795)**	(1,530,258)

The current service cost and the prior service cost is included in the statement of comprehensive income as part of operating, general and administrative expenses.

18. MINERAL EXTRACTION TAX AND RENT TAX PAYABLE

In thousands of tenge	2023	2022
Rent tax on crude oil export	**10,993,792**	9,758,654
Mineral extraction tax	**8,296,209**	7,260,406
Total	**19,290,001**	17,019,060

Movements in rent tax payable are presented below:

In thousands of tenge	2023	2022
At 1 January	**9,758,654**	7,623,387
Accrual *(Note 6)*	**48,189,372**	65,683,907
Payment	**(46,954,234)**	(63,548,640)
At 31 December	**10,993,792**	9,758,654

Movements in mineral tax payable are presented below:

In thousands of tenge	2023	2022
At 1 January	**7,260,406**	6,253,445
Accrual *(Note 5)*	**33,081,256**	32,275,383
Payment	**(32,045,453)**	(31,268,422)
At 31 December	**8,296,209**	7,260,406

19. TRADE AND OTHER PAYABLES

In thousands of tenge	2023	2022
Trade payables	**17,568,066**	14,647,148
Due to employees	**8,161,878**	7,278,362
Other taxes payable	**1,177,881**	1,018,155
Other	**647,290**	596,470
Total	**27,555,115**	23,540,134

The Company's trade payables are mostly represented by amounts payable for drilling, well repairs and purchase of property, plant and equipment.

As at 31 December 2023 and 2022, trade and other payables comprised:

In thousands of tenge	2023	2022
Trade payables to third parties	**15,494,593**	13,215,095
Trade payables to related parties	**2,073,473**	1,432,053
Total	**17,568,066**	14,647,148

The carrying value of trade payables is denominated in the following currencies:

In thousands of tenge	2023	2022
Trade payables in Tenge	**17,565,658**	14,647,148
Trade payables in USD	**2,408**	-
Total	**17,568,066**	14,647,148

20. RELATED PARTY TRANSACTIONS

The category 'entities under common control' comprises entities controlled by the Parent Company and NC KMG. The category 'other related parties' comprises entities controlled by SWF Samruk-Kazyna. The sale and purchase transactions with related parties during the years ended 31 December 2023 and 2022 and the balances on transactions with related parties at 31 December 2023 and 2022 are as follows:

In thousands of tenge	2023	2022
Sale of goods and services		
Entities under common control of NC KMG	**260,907,290**	272,923,650
NC KMG	**139,693,593**	124,581,406
Quality Bank income/expenses on crude oil sold (Entity under common control of NC KMG) *(Note 4)*	**1,447,450**	(144,923)
Entities under common control of SWF Samruk-Kazyna	**254,011**	247,918
Purchase of goods and services		
Entities under common control of NC KMG	**39,211,490**	34,805,073
NC KMG	**3,269,914**	1,745,473
Entities under common control of SWF Samruk-Kazyna	**750,528**	531,135
Salaries and other short-term benefits		
Members of the Board of Directors	**30,833**	24,000
Number of members	**3**	3
Members of the Management Board	**312,531**	234,282
Number of members	**7**	7
Trade and other receivables		
Entities under common control of NC KMG	**34,503,366**	28,724,303
NC KMG	**18,875,990**	15,079,967
Entities under common control of SWF Samruk-Kazyna	**56,446**	63,200
Trade payables		
Entities under common control of NC KMG	**1,316,720**	1,227,687
NC KMG	**686,008**	145,178
Entities under common control of SWF Samruk-Kazyna	**70,745**	59,188

Sales and receivables

Sales to related parties comprise export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. In 2023, export sales to related parties represented 1,033,954 tons of crude oil (2022: 942,613 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. In 2023, the Company received an average price per ton of approximately 264,889 tenge (2022: 285,446 tenge) for these exports of crude oil.

In addition, the Company supplies crude oil to the domestic market through NC KMG, the parent company, in accordance with the Resolution of the Government of the Republic of Kazakhstan, the ultimate controlling shareholder of NC KMG. In 2023, these supplies to the domestic market amounted to 1,636,058 tons of crude oil production (2022: 1,585,277 tons). The prices for the local market sales are determined by agreement with NC KMG. In 2023, the Company received an average of about 95,738 tenge per ton for oil delivered to the domestic market (in 2022, an average of about 78,589 tenge).

Purchases and payables

NC KMG is the Company's crude oil export agent. The agency commission for crude oil sales amounted to 95,641 thousand tenge (2022: 87,192 thousand tenge). The transportation services, which are provided by Caspian Pipeline Consortium, were reimbursed to the Parent Company in the amount of 2,339,333 thousand tenge for 136,770 tons (2022: 787,128 thousand tenge for 46,545 tons).

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company has various financial liabilities such as loans, trade and other receivables. The Company has various financial assets such as receivables, short-term and long-term deposits and cash and cash equivalents.

The Company is exposed to the currency risk, credit risk, liquidity risk and the risk of changes in commodity prices.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates mainly to the Company's operating activities, as the majority of its sales are denominated in US dollars whilst almost all of its costs are denominated in tenge. It also relates to its investments denominated in foreign currencies.

The following table demonstrates the sensitivity of the Company's profit before tax (due to the changes in the fair value of monetary assets and liabilities) to a reasonably possible change in the exchange rates for US dollar, the probability of which can be reasonably assumed, with all other variables held constant.

In thousands of tenge	**Increase/ (decrease) in exchange rate tenge against US dollar**	**Effect on profit before tax**
2023		
USD	**+14.15%**	**12,573,857**
USD	**(14.15%)**	**(12,573,857)**
2022		
USD	+21.00%	26,654,741
USD	(21.00%)	(26,654,741)

Credit risk

The Company is exposed to credit risk in relation to its receivables. The Company's vast majority of sales is made to an affiliate, NC KMG, and the Company has a material concentration risk of the receivable from this affiliate *(Note 12)*. An additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not material.

The Company is also exposed to credit risk from its investing activities. The Company mostly places the deposits with Kazakhstan banks. Credit risk from balances with financial institutions is managed by the Company's treasury department in accordance with the Parent Company's treasury policy. The maximum sensitivity of the Company to credit risk arising from the default of financial institutions is equal to the carrying amount of these financial assets.

The table below shows the balances of other financial assets and cash and cash equivalents at the reporting date using the Standard and Poor's and Moddy's credit ratings, unless otherwise indicated.

In thousands of tenge	**Location**	**Rating agency**	**Rating[i] 31 December 2023**	**Rating[i]** 31 December 2022	**2023**	2022
Banks						
Halyk Bank JSC	Kazakhstan	Standard and Poor's	**BB+ (stable)**	BB (stable)	**70,303,224**	109,426,990
First Heartland Jusan Bank JSC	Kazakhstan	Moody's	**Ba3/(positive)**	B1/(negative)	**174,729**	248,923
					70,477,952	109,675,913

* *Source: official websites of banks and rating agencies as at 31 December of the respective year.*

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Company monitors its liquidity risk using a current liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., receivables, other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2023 and 2022 based on contractual undiscounted payments:

In thousands of tenge	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
At 31 December 2023						
Historical obligations	**-**	**836,622**	**2,509,865**	**12,758,072**	**6,938,933**	**23,043,492**
Trade and other payables	**25,794,673**	**-**	**-**	**-**	**-**	**25,794,673**
	25,794,673	**836,622**	**2,509,865**	**12,758,072**	**6,938,933**	**48,838,165**

In thousands of tenge	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
At 31 December 2022						
Historical obligations	-	836,622	2,509,865	12,758,072	10,285,419	26,389,978
Trade and other payables	21,985,157	-	-	-	-	21,985,157
	21,985,157	**836,622**	**2,509,865**	**12,758,072**	**10,285,419**	**48,375,135**

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Capital management

Capital includes the entire equity of the Company. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and available funds to support its business and strategic objectives.

As at 31 December 2023, the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended 31 December 2023 and 2022.

22. FINANCIAL INSTRUMENTS

The fair value of financial instruments such as short-term trade receivables, trade payables and historical obligations approximates their carrying value.

As at 31 December 2023 and 2022, the Company did not have any financial instruments classified as financial instruments of Levels 1 or 2.

For the years ended 31 December 2023 and 2022, there were no transfers between Levels 1, 2 and 3 of the financial instruments' fair value.

23. CONTRACTUAL AND CONTINGENT ASSETS AND LIABILITIES

Political and economic environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks required for a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Domestic market obligations

The Kazakhstan government requires that oil producers supply a portion of their crude oil production to meet domestic energy requirements.

Starting from 1 April 2016, the Company discontinued crude oil sales to KazMunayGas Refining Marketing JSC and sold oil to the Parent Company. On 1 July 2018, the Company started crude to sell oil to NC KMG based on the oil purchase agreement.

If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial position and results of operations.

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant change and allow for different interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions on IFRS approaches to revenue, expenses and other items of the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2023.

The Company's management believes that its interpretations of the tax legislation are appropriate, and that the Company has justifiable arguments for its tax position.

Since 2021, the Company revised the approach of deducting depreciation costs from exploration expenses for CIT purposes, in accordance with Articles 258 and 259 of the Tax Code of the Republic of Kazakhstan. The approach to deducting deposits/withdrawal of liquidation deposits under some subsoil use contracts has also been revised. The Company's management assesses the risk of incorrect classification of general and indirect income and expenses as low.

Taxation of export transactions

According to the Law of the Republic of Kazakhstan *On Transfer Pricing*, international business transactions, as well as some transactions made in the Republic of Kazakhstan, regardless of the relationship of the parties or the degree of deviation of the transaction price from the market price, are subject to state control in transfer pricing (TP). When calculating market prices, the components of the differential must be documented or confirmed by sources of information.

In 2023, as well as in prior periods, the Company exported oil to a related party that is part of NC KMG group. In accordance with the requirements of the TP Law, the authorised bodies have the right to request that the participants of the transaction, government agencies and third parties provide the information necessary to determine the market price and differential, as well as other data for monitoring the TP.

The collection of all necessary documents, including original copies of primary documentation on export operations confirming the size of the differentials for 2023, in full and before the start of the tax audit in accordance with the applicable requirements of the Law of the Republic of Kazakhstan *On Transfer Pricing* is carried out by NC KMG, which is an oil sales agent. The Company's management believes that the risk of assessment of related tax liabilities, penalties and administrative fines in connection with the adjustment of taxable items due to the lack of documents is not material.

Environmental impact

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Other than those amounts provided for in *Note 16*, the management believes that there are no probable environmental liabilities, which could have a material adverse effect on the Company's financial position, operating results or cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. CONTRACTUAL AND CONTINGENT ASSETS AND LIABILITIES (continued)

Oil field licences

The Company is subject to periodic reviews of its activities by the governmental authorities with respect to the requirements of its oilfield licences and related subsoil use contracts. The management cooperates with the governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the licence provisions may result in fines, penalties, restriction, suspension or withdrawal of the licence.

The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, operating performance and cash flows.

The Company's oil and gas fields are located on land belonging to the Atyrau regional administration. The licences are issued by the Ministry of Oil and Gas of the Republic of Kazakhstan and the Company pays mineral extraction tax and excess profit tax to explore and produce oil and gas from these fields.

The principal licences of the Company and their expiry dates are presented in the below table:

	Contract No.	Expiry date	Type of contract
Contract			
Kenbai	No. 37	2041	Production
South-East Novobogatinskoe	No. 61	2048	Production
23 oilfields	No. 211	2037	Production
15 oilfields	No. 413	2043	Production
Taisoigan	No. 327	2035	Production
West Novobogatinskoe	No. 4955	2027	Production
Liman	No. 406	2033	Exploration
Karaton-Sarkamys	No. 3577	2047	Production
South-East Novobogat (suprasalt)	No. 4906	2026	Production
Taisoigan-1	No. 5134	2028	Exploration
Taisoigan-2	No. 5135	2028	Exploration

Commitments arising from oilfield licences

	Capital expenditures	Operating expenses
Year		
2024	51,378,953	1,726,627
2025	26,904,712	1,719,030
2026	1,364,336	1,711,977
2027	846,336	1,705,430
2028-2048	–	8,810,784
	80,512,337	**15,673,848**

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